

Trade Acceptances Canadian Practice

*With the Compliments of
Geo. Wilson, Agent*

**Union Bank of Canada
49 Wall Street New York**

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1918
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Dr. Curtis,

Kingston, Ont. June 1976

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*Trade Paper
a Fundamental
of Canadian
Banking*

The Trade Acceptance—or Trade Paper, as it is technically termed in Canada—is the simple and effective credit instrument by virtue of which practically the entire internal trade of the country is transacted. It is the universal medium of settlement between buyers and sellers of goods of all description and every wholesaler, manufacturer, jobber and retailer throughout the length and breadth of the land is conversant with trade paper and understands its efficacy in handling business.

The uses of trade paper and its intimate relation to business forms part of the elementary training of every junior bank clerk; in short, trade paper is one of the fundamentals and principal props of the Canadian financial structure.

*Direct
and
Indirect
Lines of
Credit*

It is customary in Canada for all classes of borrowers to arrange their banking credits once a year to run contemporaneously with their own fiscal year—the credits being based upon a consideration of each year's balance sheet which the Bank almost invariably requires to be audited by a firm of Chartered Accountants. In addition to a direct line of credit (i. e., one-name paper), an indirect line against trade paper is also established. The direct line of credit is granted to furnish the borrower with the necessary working capital to purchase raw materials and seasonal stock-in-trade, the Bank's policy being to stipulate for liquidation, or at least to require a reduction to a low ebb of the direct advances at least once a year. Failure on the part of the customer to do this usually indicates the need of additional permanent capital in the business.

*How Trade
Paper Credit
is Determined*

Technically, the amount of the Trade Paper Credit should correspond with a total approximating the proportion which the borrower's average terms of sale

bears to the annual “turnover”; for instance, if the annual turnover amounts to \$240,000 and the *average* terms of sale are two months, the trade paper credit should not exceed \$40,000—or one-sixth of the annual turnover. If the trade paper under discount exceeds \$40,000 at any period, the banker is warned that the borrower has either increased the turnover in the business or that he is granting unwarranted renewals to buyers. If the turnover is heavier at one period of the year than another, the trade paper credit should fluctuate to accord with the seasonal “peak loads” in the turnover.

*Trade Paper
Discounted
Before
Acceptance*

The manufacturer or wholesaler, fortnightly or monthly as the case may be, lodges with his bankers *unaccepted* drafts drawn upon the retailers representing sales for the previous half month or month (See Form “A”). Each bill is carefully scrutinized by the manager and then discounted and immediately forwarded for acceptance to its destination, either to a branch of the Bank or to its regular correspondent.

This procedure differs from the American system, under which drafts are not discounted until they are *accepted*—hence the term Trade Acceptance as distinguished from Trade Paper.

*Some
Buyers
Will Not
Give
Acceptances*

Many large purchasers in Canada—notably the departmental stores and larger manufacturers which buy on a cash basis—will not give acceptances, as they prefer to settle their accounts by monthly or periodical remittances. In such cases it is not an uncommon practice for the wholesaler to lodge with his banker a draft drawn upon the departmental store to which is attached a printed special form of assignment of account (See Form “B”). This assignment form is attached to the draft which, however, is not forwarded for acceptance, but is simply held until maturity, or until the wholesaler retires it by the cheque remitted to him by the departmental store. The special form of assignment referred to constitutes a preferential claim against the particular account assigned and would be recognized as such by an assignee in case of failure.

*Bills Sent
Forward for
"Acceptance
and Return"*

Occasionally the Bank will not care to discount a bill before its acceptance by the drawee, in which case the item is taken for collection and sent forward for "acceptance and return" (A. & R.). When returned, properly accepted, the bill is then discounted.

*Drafts Drawn
Against Bills
of Lading*

Whenever a wholesaler receives an order for goods from a buyer whose financial status is unknown and to whom he is loath to grant credit, a demand or sight draft is drawn accompanied by Bill of Lading (to order) which is surrendered upon payment of the draft. This procedure stimulates business and the acquirement of new accounts which could not be secured under the open account system.

*Buyers
for
Cash*

Sight or short term drafts are made upon buyers who buy on "cash terms"—this plan positively determining the date of payment. Under the open account system goods bought for cash are seldom paid for within the prescribed time limit.

Advantages from the Seller's Banker's Point of View

*Scrutiny
of Paper
Offered for
Discount*

The careful scrutiny of each trade bill offered for discount gives the banker an intimate knowledge of his customer's customer, which is quite impossible under the open account system. An account is kept in the Indirect Liability Ledger for each drawee and each bill is posted therein in detail. The drawee's rating and a synopsis of mercantile and bank reports is kept at the head of each account, so that this record affords the banker a ready reference respecting the retailer's business characteristics and enables him to quickly detect overtrading or over-extension of credit. The record also discloses whether or not retailers' bills are promptly paid at maturity.

*Bankers'
Record of
Retailers*

Possessed of a general knowledge—through the medium of the Indirect Liability Records—of the principal retailers throughout the country, the Canadian banker is often able to warn his customer

against overtrading proclivities or other transgressions of undesirable retailers. This is particularly true where a bank carries the account of two concerns in the same line of business which sell their products to the same retailers.

*Advantages
Over
Open
Account*

The banker's appraisal of trade paper is based upon his first-hand knowledge of, and familiarity with, the methods and character of the drawees; whereas, an appraisal of open accounts is based upon the reports thereon given by the borrower. Which is the better security?

*Bills For-
warded for
Acceptance
and Collec-
tion*

Immediately after discounting, the bills are forwarded to the branches and correspondents of the bank for presentation and collection. The messenger of the Collecting Bank presents the bills promptly to the drawees for acceptance and when completed the bill is held for collection by the Collecting Bank and remittance is made at maturity by settlement draft in the usual way.

It is customary for the bank messenger to leave the bill in the hands of the drawee for twenty-four hours and in case the drawee refuses to accept the bill, the messenger attaches thereto a small printed slip upon which is listed various "Reasons for Refusal" and indicates thereon by a cross (x) the reason given for refusal of acceptance (See Form "C"). The refused draft is promptly returned to the sending bank, with the "reason for refusal" slip attached, a nominal charge of 10 cts. being usually exacted for the service of presentation.

*Drawee's Acceptance of Bill
Constitutes
Order Upon
His Banker to
Pay at Maturity*

Almost invariably, the drawee accepts the bill payable at his own Bank and such acceptance constitutes an order upon his Banker to pay the bill and charge same to his account at maturity without further notice. Occasionally, by arrangement, the drawee will accept the bill payable at the office of the drawer, in which event it is returned to the sending bank and retired at maturity by the drawer's cheque, or by his authority to his bank to charge the item back to his account.

*Divided Ac-
counts Not
Favoured in
Canada*

Contrary to the custom in the U. S., the Canadian banker is unfavourably disposed towards divided borrowing accounts. With the exception of very large concerns which borrow heavily and whose accounts are sometimes divided between two banks, the borrowing customer must obtain all his requirements from his own banker; otherwise he may be politely told to arrange his borrowings elsewhere. It is obvious that under this policy a banker has better control and better knowledge of his customers' affairs than if loans are arranged indiscriminately among half a dozen or more banks.

*Trade Accept-
ances Exempt
from 10% Bor-
rowing Limit*

The National banking law which limits a customer's direct borrowings to 10 per cent. of his bank's capital and surplus is no doubt responsible for the necessity for borrowing in the open market. This borrowing restriction is overcome by the provisions of the Federal Reserve law which not only prescribes preferential discount rates for

trade acceptances, but permits banks to discount them “ad libitum” without regard to the 10 per cent. limitation. If the trade acceptance possessed no other virtue whatever, this feature justifies its general adoption.

The Seller's Point of View

*Trade Accept-
ance Affords
Broader Basis
of Credit*

The use of trade paper enlarges the seller's borrowing facilities at least 20 per cent., inasmuch as trade paper is eligible for discount to the extent of 100 per cent.; whereas, the loan value of an open account does not average higher than 80 per cent.

*Billions in
Locked-up
Credit*

The universal use of the trade acceptance in the U. S. would release locked-up credit to the extent of 20 per cent. of the nation's total of prime open accounts—a total which can be better imagined than estimated; certainly more than enough to finance the national war expenditure.

*Summary of
Advantages
to the
Seller*

The principal benefits accruing to the seller by the adoption of the Trade Acceptance may be summarized as follows:

- (1) The enlargement of credit facilities with his banker and the resultant stimulant to wider trade activities.
- (2) Assuming that a retailer has Brown's Trade Acceptance for \$500 maturing on a given day and Jones's open account for a like amount which *should be* (but seldom is) remitted for on the same day—and assuming that he has only \$500 at his credit with his local banker—is Brown or Jones likely to get the \$500? Brown, naturally; therefore, prompter payment of customers' accounts results by the use of the Trade Acceptance.
- (3) The elimination or amelioration of the "returned goods" evil, actually encouraged under the system of open accounts which are subject to adjustment at all times.
- (4) The invaluable advice which can be extended to the bank with respect to retailers throughout the country, thereby checking over-extension of credit and avoiding losses

which would have been unavoidable under the open account system.

The Buyer's Banker's Point of View

*Betters Re-
lationship
Between
Banker and
Retailer*

The improved business methods which are stimulated by the adoption of the trade acceptance brings the retailer oftener into contact with his banker, and a consequent bettering of relationship and enlargement of credit facilities results. Any merchant who pays promptly obviously improves his credit with his local banker; and, conversely, the buyer who practices slip-shod methods in the conduct of his business soon finds himself in bad odour with his banker.

*Broadens
Banker's Knowl-
edge of
Local Merchants*

The local banker, acting as the collecting Agency of the trade acceptances drawn by wholesalers and manufacturers in the larger centres, is brought into constant touch with all the buyers in his district and he thereby becomes thoroughly familiarized with

the business habits and characteristics of all the business people in his vicinity. This information is indispensable to him in the dispensing of credit locally, and also equips him with the knowledge necessary to issue authoritative reports to his correspondents bearing upon the financial status of all business concerns within his jurisdiction.

The Buyer's or Retailer's Point of View

*Improves
Accounting
Methods
and Speeds
Up Collections*

The adoption of the trade acceptance system by the retailer of necessity eliminates careless and slovenly methods of bookkeeping and involves strict attention to his maturing obligations. The simple device of an ordinary "bill book" in which his trade acceptances are recorded is the only extra clerical labour imposed upon him under the system and the daily scrutiny of the maturing bills in the "bill book" is an ever present incentive to more efficient accounting methods. The knowledge that the wholesaler's account in the form of a trade acceptance is maturing a few days hence impels him to stimulate the collection

of outstanding accounts on his own books in order to make prompt provision for the trade acceptance when it matures. The adoption of orderly and systematic accounting methods soon becomes a fixed habit and results in a toning up of the business generally and acts as a stimulant to punctuality.

*Quicker
Cash
Turnover
Means
Higher
Profits*

Prompt cash payments and the elimination of stagnant book accounts means more ready cash and a large turnover of business

This, in turn, spells a higher ratio of profit and a general all around improvement of credit, as the giving of the trade acceptance inspires the seller's confidence in the retailer's ability to contract for and to pay his accounts promptly.

*Trade Acceptances
May
Be Given
By Consumer*

The principle of the trade acceptance can be applied just as readily by the retailer to his own customer, inasmuch as stagnant open accounts can be transformed into an acknowledged form of debt which is eligible for discount at the retailer's bank. In the smaller centres, where the bank-

er's credit facilities are limited under the 10 per cent. loaning rule, the privilege granted under the Federal Reserve System which eliminates this restriction, opens a larger credit field to the retailer if he is prepared to take proper advantage of the opportunities afforded.

General Comment

*A Panacea
for Panics*

The recurring panics of past decades in the U. S. were attributed to an unscientific and inelastic banking system and it is by no means improbable that had the Trade Acceptance been generally employed the Nation would not have been subjected to such painful financial convulsions.

*Important
Cov in the
Federal Reserve
Machinery*

The Federal Reserve System has changed all this and the scientific employment of banking credit in all its phases is imperative if the domestic and foreign trade of the country is to be developed and maintained at its maximum efficacy. The foreign trade of the United States and every other country is conducted by means of the trade acceptance and its functions can be applied with equal efficacy

to internal trade if proper use is made of the highly efficient machinery provided by the Federal Reserve System.

*False
Prophets*

Just as many venerated doctrines of political economy and finance have been cast overboard since the outbreak of war, so are present forecasts of post-bellum conditions likely to prove wide of the mark.

*A
Peace
Palladium*

Thrift, economy, elimination of wastage and increased efficiency will be reflected in every branch of industry and commerce when peace comes and the recuperative powers of the war-stricken nations will probably exceed the most optimistic estimates.

*Factor in
the Financial
Fabric*

Successful participation in the intensive trade competition which is inevitable after the war will depend largely upon a proper mobilization of financial forces and the utilization of every effective unit. *The best unit in reserve is undoubtedly the Trade Acceptance.*

Form A (See Page 7)



ART CLOTHES 7
COOK BROS. & ALLEN LIMITED

DUE SEP 18 1917



COOK BROS. & ALLEN
Limited

WHOLESALE TAILORS

TORONTO.

AUG 30 1917

No. **N.B. 600.**
TORONTO
D.R. 2/870

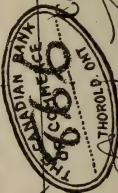
SEP 15 1917

after date pay to the order of

UNION BANK OF CANADA, TORONTO

\$ 75.05

$\frac{05}{100}$ DOLLARS



COOK BROS & ALLEN LIMITED

SECRETARY

DIRECTOR

*Values reserved
To Messrs. C. J. & Co.
Should be
Forward Through Loan*

Form B (See Page 8)

TO THE UNION BANK OF CANADA

The annexed bill for \$_____ dated _____ 19____

payable at _____ represents an indebtedness

due to the undersigned by _____ the Drawee thereof,
for goods actually supplied by the undersigned to Drawee, and the undersigned hereby assign and transfer
to you the said indebtedness of the Drawee thereof and waive protest and notice of none acceptance of
the said bill; and authorize you at the expense and risk of the undersigned in event of non-acceptance to
sue for and recover the amount of such indebtedness, with full power to compound or compromise the
same, and the undersigned agrees to furnish you with a detailed statement of such indebtedness and with all
evidence necessary to establish the same at the undersigned's expense; and if the amount, or any part thereof
should be paid to us we will receive it as your Agents only, and will forthwith pay over the same to you.

Dated at _____

19____

**Form of Specific Assignment of Account. Attached to trade paper
drawn on firms who will not accept drafts.**

Form C (See Page 12)

Union Bank of Canada TORONTÖ

Reasons for Returning Attached Bills are Crossed X.

Not due.
No funds.
Will remjt.
No account.
Office closed.
Party will write.
Party has written.
Party in difficulties.
Not sufficient funds.
Goods not received.
Amount not correct.
Goods not as ordered.
No instructions to pay.
Cannot pay at present.
Will not pay exchange.
Wants extension of time.
Not in town at present.
Payment stopped by makers.
Notice given but no response.
Claims credit of goods returned.
Reasons endorsed on back of bill.
Payment refused—no reasons given.
Acceptance refused—no reasons given.
Acceptance refused—paid.

Hold reasonable time for arrival
of goods. If unaccepted, ascer-
tain definite reason and report

**UNION BANK OF CANADA
TORONTO**

**“Hold for Arrival of
Goods” slip usually
attached to “sight”
bills and to bills
drawn contempor-
aneously with
shipment of goods.**

**“Reasons for Refusal” slip—
attached to bills returned un-
accepted or unpaid.**

